




WEST BAY



West Bay Sanitary District

Investment Policy

Approved by a motion of the District Board on
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INVESTMENT POLICY

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Introduction

The purpose of this document is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment policy and to organize and formalize investment-related activities.

The investment policies and practices of the West Bay Sanitary District (District) are based on state law and prudent money management. All funds will be invested in accordance with the District's investment policy and the California Government Code.

Scope

This investment policy applies to all funds and investment activities under the direction of the District.

Prudence

The standard of prudence to be used by investment officials shall be the "prudent investor" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments. Investments shall be made with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the District.

Objectives

The primary objectives, in priority order, of the investment activities of the District shall be:

- 1) Safety. Safety of principal is the foremost objective of the investment program. Investments of the District shall be undertaken in a manner that seeks to ensure preservation of capital in the portfolio.
- 2) Liquidity. The District shall maintain sufficient investments in liquid accounts to meet anticipated cash flow needs for the next six to twelve months. Liquidity refers to the ability to sell at any given moment with a minimal chance of losing principal or interest.
- 3) Return on Investment. The investment portfolio of the District shall be designed with the objective of attaining a market rate of return on its investments consistent with the constraints imposed by its safety objective and cash flow considerations.

Delegation of Authority

The Board of Directors delegates day-to-day responsibility for investments to the District Manager/Chief Fiscal Officer (CFO). This delegation of authority shall be in effect for a one-year period and must be reviewed, and if still applicable, renewed annually. If authority has been delegated, the District staff shall submit a quarterly report of investment transactions to the Board of Directors, as required by California Government Code, Section 53607.

The Board may delegate the authority to invest, reinvest, sell, or exchange securities on behalf of the District to a registered investment advisor. The registered investment advisor shall follow this Policy and such other written investment instructions as provided.

The Board of Directors shall monitor and review all investments for consistency with this investment policy.

Investment Procedures

The District shall establish written investment procedures for the District's investment program consistent with this Policy. The procedures should include reference to: safekeeping, wire transfer agreements, banking service contracts, cash flow forecasting, and collateral/depository agreements.

Ethics and Conflict of Interest

Officers and employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the CFO and Finance Manager any material financial interests in financial institutions that conduct business within their jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the District.

Authorized Financial Dealers and Institutions

The CFO, Finance Manager, or the District's registered investment advisor, shall maintain a list of authorized broker/dealers and financial institutions which are approved for investment purposes, and it shall be the policy of the District to purchase securities only from those authorized institutions. The CFO, Finance Manager, or investment advisor shall have written criteria for inclusion on the approved list. The list should be reviewed by the Board of Directors annually.

Permitted Investment Instruments (in conformity with California G.C. §53601)

The District shall attempt to limit its investments in any one bank or corporation to no more than 5% of the District's total investments at the time of purchase.

- 1) United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.
- 2) Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

- 3) Obligations of the State of California or any local agency within the state, including bonds payable solely out of revenues from a revenue-producing property owned, controlled or operated by the state or any local agency or by a department, board, agency or authority of the state or any local agency, or registered treasury notes or bonds of any of the other 49 United States, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 United States, provided that the obligations are rated in one of the two highest categories by a Nationally Recognized Statistical Rating Organization.
- 4) Banker's Acceptances issued by domestic or foreign banks, which are eligible for purchase by the Federal Reserve System, the short-term paper of which is rated in the highest category by a Nationally Recognized Statistical Rating Organization. Purchases of Banker's Acceptances may not exceed 180 days maturity or 40 percent of the District's total funds available for investment or 30 percent in the bankers' acceptances of any one commercial bank..
- 5) Commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided by a Nationally Recognized Statistical Rating Organization (NRSRO). The issuing entity shall meet all of the following conditions of paragraph a or b:
 - a. The entity meets the following criteria:
 - i. Is organized and operating within the United States as a general corporation
 - ii. Has total assets in excess of \$500 million
 - iii. Has debt other than commercial paper, if any, that is rated in a rated category of "A" or higher rating by a Nationally Recognized Statistical Rating Organization.
 - b. The entity meets the following criteria:
 - i. Is organized within the United States as a special purpose corporation, trust, or limited liability company
 - ii. Has program-wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or a surety bond.
 - iii. Has commercial paper that is rated "A-1" or higher, or the equivalent, by a Nationally Recognized Statistical Rating Organization.

Purchases of eligible commercial paper shall have a maximum maturity of 270 days or less and may not exceed 25 percent of the District's total funds available for investment. Investments also may not represent more than 10 percent of the outstanding commercial paper of any single corporate issue.

- 6) Medium-term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Medium-term corporate notes shall be rated in a rating category of "A" or its equivalent or better by a Nationally Recognized Statistical Rating Organization.

Purchase of medium-term corporate notes may not exceed 30 percent of the District's investment portfolio.

- 7) Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank. The Board of Directors of the District, the CFO, or other officials of the District having legal custody of the money are prohibited from investing the District's funds, or funds in the custody of the District, in negotiable certificates of deposit issued by a state or federal credit union if a member of the Board of Directors or any person with investment decision making authority in the administrative office manager's office, budget office, auditor-controller's office, or CFO's office of the District also

serves on the Board of Directors, or any committee appointed by the Board of Directors, or the credit committee, or the supervisory committee of the state or federal credit union issuing the negotiable certificates of deposit.

Purchase of negotiable certificates of deposit may not exceed 30 percent of the District's total funds available for investment, and the issuing institution must be rated in a rated category of "A" long-term or "A-1" short-term or its equivalent or better by a Nationally Recognized Statistical Rating Organization.

- 8) FDIC insured or fully collateralized time certificates of deposit in financial institutions located in California, including U.S. branches of foreign banks licensed to do business in California. All time deposits must be collateralized in accordance with California Government Code section 53652, either at 150% by promissory notes secured by first mortgages and first trust deeds upon improved residential property in California eligible under section (m) of section 53651 or at 110% by eligible marketable securities listed in subsections (a) through (l) and (n) and (o) of section 53651. Eligible securities of the class described in subsection (p) of section 53651 must be collateralized at 105% of the total amount of all deposits of a depository secured by those eligible securities. The District, at its discretion and by majority vote of the Board of Directors, on a quarterly basis, may waive the collateralization requirements for any portion of the deposit that is covered by federal insurance.

Purchases in any single bank or institution shall not exceed \$500,000 in the aggregate at any time.

- 9) State of California's Local Agency Investment Fund

Investment in LAIF may not exceed the investment limitation imposed by LAIF.

- 10) Insured checking, savings, or money market account.

Holdings in any single account shall not exceed \$1,000,000 in the aggregate at any time, with the exception of holdings account for other investments, Bank of the West Investment Management and Public Agency Retirement Services (PARS) Trust, the Sharon Heights Golf & Country Club SRF Deposit Money Market, and general accounts for timely processing of payments in normal business.

- 11) Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.). To be eligible for investment pursuant to this subdivision these companies shall either: (1) attain the highest ranking letter and numerical rating provided by not less than two Nationally Recognized Statistical Rating Organizations and (2) have an investment advisor registered with the Securities and Exchange Commission with not less than five years' experience investing in securities and obligations authorized by Government Code Section 53601 and with assets under management in excess of \$500,000,000.

The purchase price of shares shall not exceed 20 percent of the District's total funds available for investment.

- 12) Any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond of a maximum of five years' maturity. Securities eligible for investment shall be issued by an issuer having an "A" or higher rating for the issuer's debt as provided by a Nationally Recognized Statistical Rating Organization and rated in a rating

category of "AA" or its equivalent or better by a Nationally Recognized Statistical Rating Organization.

Purchase of securities authorized may not exceed 20 percent of the District's total funds available for investment.

13) The California Asset Management Program.

14) United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), or Inter-American Development Bank (IADB), with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of at least "AA" by a Nationally Recognized Statistical Rating Organization.

Purchases of these securities shall not exceed 30 percent of the District's total funds available for investment.

Credit criteria listed in this section refers to the credit of the issuing organization at the time the security is purchased. The District may from time to time be invested in a security whose rating is downgraded. If a rating drops below a rating category of "A," the investment advisor shall notify the CFO and Finance Manager and recommend a plan of action. The CFO shall contact the Finance Committee to apprise it of the downgrade and the investment advisor's recommendation. The Committee shall report both the downgrade and any action taken to the Board of Directors at the Board of Directors' next regularly scheduled meeting.

Any percentage limitations for a particular category of investment are applicable only at the date of purchase. Percentage limitations will be applied separately to the individual portfolios.

Ineligible Investments (in conformity with California Government Code Section 53601.6)

The District shall not invest any funds in inverse floaters, range notes, mortgage-derived, interest-only strips, or in any security that could result in zero interest accrual if held to maturity.

Safekeeping and Custody

The assets of the District shall be secured through the third-party custody and safekeeping procedures. Bearer instruments shall be held only through third-party institutions. Collateralized securities shall be purchased using the delivery vs. payment procedure.

Maximum Maturity

To the extent possible, investments will be matched to the anticipated cash flow requirements of each reserve account. No investment in any reserve account shall be made in any security that at the time of the investment has a term remaining to maturity in excess of five years, unless the Board of Directors has granted express authority to make an investment either specifically or as a part of an investment program approved by the Board of Directors no less than three months prior to the investment, as required by California Government Code §53601. Additionally, purchases of investments greater than five years will not begin until staff has provided authorization to the District's investment advisor. The maximum maturity for all other sectors is five years, or less, in conformity with Code.

Internal Controls

The CFO and/or Finance Manager shall establish a set of internal controls which will be documented and communicated to the Board of Directors. The internal controls of the District shall be reviewed by the District's independent auditor each year.

Performance Evaluation

As a reference point for the performance of the District's portfolios, the total return of each reserve account will be compared with the total return of the Merrill Lynch 1-5 Year U.S. Treasury Index.

Reporting Requirements

The Finance Manager shall render a quarterly investment report to the Board. The report shall include the following information for each individual investment:

- Type of investment instrument
- Issuer Name
- Maturity date
- Purchase price
- Par value
- Current market value and the source of the valuation
- Overall portfolio yield based on cost

The quarterly report also shall (i) state compliance of the portfolio to the investment policy, or manner in which the portfolio is not in compliance, (ii) include a description of any of the District's funds, investments, or programs that are under the management of contracted parties, including lending programs, and (iii) include a statement denoting the ability of the District to meet its expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may, not be available.

Investment Policy Adoption

The District's investment policy shall be adopted by resolution of its Board of Directors. The Policy shall be reviewed by the Board of Directors annually and any modifications made thereto must be approved by the Board of Directors. The annual review shall also consider revisions to the California Government Code and denote such.

The District Board of Directors shall insure that funds are invested in a manner which will provide the maximum security of principal invested, with secondary emphasis on achieving the highest rate of return while meeting the cash flow needs and conforming to all applicable State statutes governing the investment of public funds.

General Policy on Accounting for Investments

The District shall record cash in Local Agency Investment Fund (LAIF) at face value, as this is the definitive value of the District in LAIF. LAIF is exempt from Governmental Accounting Standards Board (GASB) Statement Numbers 72 and 79, requiring applying measurement at fair market value or amortized cost, since it is part of the California State Pooled Money Investment Account (PMIA).

Responsibilities (Summarized)

Board Responsibility

Annually review Investment policy and approve any modifications, review the list of authorized broker/dealers and financial institutions which are approved for investment purposes, and review and renew delegation of the day-to-day responsibility for investments to the District Manager/Chief Fiscal Officer (CFO) for a one-year period.

Monitor and review all investments quarterly for consistency with this investment policy.

Staff Responsibility

The CFO, Finance Manager, or the District's registered investment advisor, shall maintain a list of authorized broker/dealers and financial institutions which are approved for investment purposes. The District's investment advisor shall provide monthly and quarterly investment reports. The purpose of the monthly report is to advise the District of the investments types held. The CFO or Finance Manager must review and submit the quarterly investment reports to the Board of Directors. In addition, the CFO or Finance Manager shall submit a quarterly investment report outlining the investment details to the Board of Directors.

The CFO and Finance Manager shall be responsible for oversight of the daily investment balances and ensure that the District investments follow the Board of Director's approved investment policy.

District staff shall be responsible for monthly reconciliation of all investment accounts and prepare in a timely manner. Staff will provide monthly summaries to the Board of Directors of all investment accounts.

The CFO or Finance Manager shall establish separate written investment procedures for the District's investment program consistent with this Policy. The procedures should include safekeeping, wire transfer arrangements, banking service contracts, cash flow forecasting, and collateral/depository agreements.